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Trade and Payments Trends of Non-OPEC LDCs

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Intelligence Memorandum

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Trade and Payments Trends of Non-OPEC LDCs

Non-OPEC LDCs incurred a substantial worsening of their terms of trade in 1974. They suffered not only from sharp increases in the price of petroleum imported from OPEC countries but also from extraordinary price increases in commodities and manufactures imported from developed countries. Prices of primary commodities exported by non-OPEC LDCs were mixed. Those of metals and agricultural raw materials reached a peak around midyear and, with the worsening economic recession, have been declining since then. Food prices remained firm, in general. These factors caused:

- an increase in the trade deficit of non-OPEC LDCs to about US $31 billion, 41% of which was attributable to OPEC trade; and

- a drop in real economic growth rates for most of the non-OPEC LDCs.

Although the balance-of-payments deficits of most non-OPEC LDCs were financed with little apparent difficulty in 1974, problems will grow in 1975. Most of these countries entered 1975 with a lower level of foreign exchange reserves and larger potential current account deficits than in 1974. Private capital flows to these countries will become less available, driving them increasingly to official bilateral and multilateral capital sources and to IMF balance-of-payments financing. OPEC, directly or indirectly, will assume a larger share in financing their balance-of-payments deficits.

We expect that non-OPEC LDCs will increasingly resort to currency devaluations to expand exports and curb imports. Increased import restrictions and falling prices for their primary commodity exports will result in a continued drop in the real rate of economic growth for most of them.

Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 5291.

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DISCUSSION

Introduction

1. This memorandum presents and analyzes recent changes in foreign trade relationships between non-OPEC less developed countries (non-OPEC LDCs)[1] and the OPEC countries, developed countries, the USSR and Eastern Europe, and China. Its primary focus is the balance-of-payments implications of these changes and the economic adjustments that non-OPEC LDCs have made. Complete data on country foreign trade and payments are lacking, and gaps had to be filled in with estimates that should be regarded as approximations.

Merchandise Trade Developments

2. Merchandise trade developments in non-OPEC LDCs for 1974 indicated: (a) a doubling of the overall trade deficit, (b) widening trade deficits with OPEC countries, (c) an even larger trade deficit with developed countries, and (d) a relatively small but improved trade balance with the Soviet bloc and China.

3. Non-OPEC developing countries' merchandise trade in 1974 showed a record deficit of some $31 billion (see Table 1 and Figure 1). Brazil ran a deficit of about $4.7 billion, South Korea roughly $1.7 billion, South Vietnam $770 million, Taiwan $700 million, the Philippines $680 million, India $650 million, Pakistan $640 million, and Kenya $350 million. The 33 countries on the UN Most Seriously Affected (MSA)[2] list, which includes India and Pakistan, had a combined trade deficit of about $4 billion.

4. Most of the increase in the trade deficit with developed countries was generated by an estimated $3.5 billion increase in the deficit with Japan. Data for 1974 show trade deficit increases of $2 billion with West Germany, about $525 million with the United States, and more than $750 million with the United Kingdom, relative to 1973.

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1. Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela are full members of OPEC; for the purposes of this memorandum, Gabon, an associate member, also is included in OPEC. Excluding these countries, non-OPEC LDCs include all Africa except the Republic of South Africa; all Asia except Japan, Australia, and New Zealand; all the Near East; and all the Western Hemisphere except Canada and the United States.

2. UN administrative criteria that identify MSAs include low per capita income (not exceeding $400), sharp increases in import costs of essentials relative to export earnings, high ratio of debt service to export earnings, and a low level of foreign exchange reserves to meet requirements. Rwanda was recently added to the 32 original MSAs.

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Table 1

Non-OPEC LDCs: Foreign Trade[1]

Million US $ (f.o.b.)

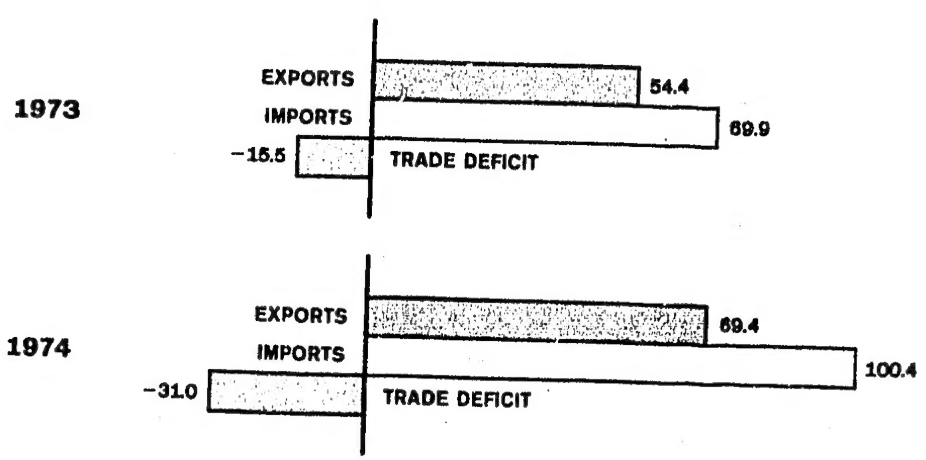
	1971	1972	1973	1974[2]
Total net deficit	**-15,333**	**-14,895**	**-15,530**	**-30,958**
Developed countries				
Exports	28,196	33,104	49,017	62,741
Imports	40,671	45,108	62,153	81,420
Trade balance	-12,475	-12,004	-13,136	-18,679
OPEC countries				
Exports	1,234	1,644	2,219	2,774
Imports	3,952	4,587	4,914	15,479
Trade balance	-2,718	-2,943	-2,695	-12,705
Soviet bloc/China				
Exports	2,086	2,433	3,214	3,921
Imports	2,226	2,381	2,913	3,495
Trade balance	-140	52	301	426

1. Data exclude arms trade.
2. Estimated.

Figure 1

Non-OPEC LDCs: Foreign Trade[1]

Billion US$, f.o.b.



[1]Excluding intratrade

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5. Import prices for non-OPEC LDCs rose about 38% in 1974; import volume was up by 9%. Export prices improved some 25% and export volume rose about 3%. The 33 MSAs fared much less well; import prices climbed some 50% and import volume growth was virtually unchanged; export prices showed a 25% gain, but export volume declined by almost 5%.

Regional and National Impact

6. Changes in export and import prices and volumes had different impacts on individual nations of the non-OPEC LDCs. For example, Brazil's real economic growth of 10% in 1974 was about the same as that of Nigeria, an oil exporter. South Korea's exports weakened during the year, particularly those of textiles and plywood, and the country's real economic growth rate fell by one-half. But this was a decline from a phenomenal 16% real economic growth rate in 1973.

7. At the other extreme, floods, drought, or other natural calamities contributed to the economic problems of such countries as India, Pakistan, Bangladesh, and those of Sahelian Africa.[3] They were consequently ill-equipped to cope with adverse import price developments or to maximize export volume increases during 1974. In the case of Sahelian Africa, the end of a drought of several years' duration is not expected to restore normal agricultural activity for about two years. The market for Pakistan's raw cotton and yarn, major exports, took a turn for the worse. Poor monsoon rains reduced India's agricultural output and were a major cause of larger grain imports that more than doubled in value, to about $1 billion. Flood problems and generally chaotic conditions hampered Bangladesh's export production and brought the economy to the brink of collapse.

8. Prices of metals, food, and agricultural raw materials in 1974 remained above 1972 levels, although those of most metals and some agricultural raw materials weakened considerably after midyear. Price declines were large for cotton, hides, rubber, and copper, for example. Food prices were buoyant during most of the year, but by yearend they too were falling – especially for coffee, rice, and copra (see Table 2).

9. The decline in prices of certain primary products was not sufficiently long-lived to have a sizable effect in 1974 on major LDC exporters of these commodities. The consequences will be graver in 1975.

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3. Sahelian Africa consists of Mauritania, Senegal, Mali, Upper Volta, Niger, Chad, and The Gambia – all MSAs, except The Gambia.

Table 2

Selected World Trade Commodities: Price Indexes[1]

1968-70 = 100

	1972	1973	1974	Projected 1975[2]
Food				
Bananas	101	102	123	125
Beef[2]	162	220	174	150
Cocoa	85	168	258	185
Coffee	119	148	160	110
Copra[2]	60	157	305	230
Fish meal	144	327	224	175
Groundnut oil	130	166	330	250
Rice[2]	114	209	294	215
Sugar	246	316	988	800
Agricultural raw materials				
Cotton[2]	132	216	219	140
Hides	229	266	188	150
Jute	108	104	127	250
Rubber	77	157	174	150
Metals				
Aluminum	101	102	130	140
Copper	78	130	150	100
Iron ore	103	145	166	180
Tin	110	141	238	250

1. Indexes are expressed in terms of US dollars. Data are from the IMF except as noted.
2. CIA estimate.

Services Account

10. The indications are that the services account of non-OPEC LDCs, which traditionally shows a negative balance, deteriorated substantially in 1974. Data for a sample of 39 countries consisting of 29 low-income countries (1972 per capita GNP of less than $400), and 10 higher income LDCs indicate a deterioration in the services account from 1973 to 1974 of 54% for all low-income countries (including 24% for UN MSAs), 74% for higher income LDCs, and 68% for the entire sample.[4]

11. The services balance for non-OPEC LDCs is largely determined by outlays for transport and financial services, although there is considerable variation within

4. The sample was compiled from estimates by IMF, IBRD, and US embassies for individual countries.

the group. Debt service payments are relatively larger for the higher than for the lower income LDCs because they tend to borrow more and generally have to pay market rates of interest. For example, Taiwan's 1974 services balance deteriorated by about 214%, Israel's by some 82%. and Brazil's by about 55%. On the other hand, India's worsened by a mere 3% and Sri Lanka's by 13%.

12. From an extrapolation of both 1972 IMF balance-of-payments data (the latest available for the non-OPEC group from that source) and the sample balance-of-payments estimates for the 39 countries, we estimate the 1974 services deficit for all non-OPEC LDCs to have been on the order of $15 billion.

Official Grants or Other Transfers

13. OPEC grants disbursed to non-OPEC LDCs approximated about $2.0 billion in 1974, mostly to Islamic countries. DAC bilateral official grants have been of the order of $4.5 billion per year for 1972 and 1973. Assuming a minimum 10% increase,spurred by increased need, DAC grants in 1974 may have totaled $5 billion.

Current Account

14. With a 1974 trade deficit of $31 billion, an adverse services balance of $15 billion, and unrequited transfers inclusive of private transfers[5] estimated at $9 billion, the 1974 current account balance for non-OPEC LDCs was about $37 billion (see Table 3).

Table 3

Non-OPEC LDCs: Current Account

Billion US $

	1974[1]	Projected 1975[2]
Exports (f.o.b.)	69.4	83.3
Imports (f.o.b.)	-100.3	−118.4
Trade balance	-30.9	-35.1
Net services	-15.0	-19.5
Net transfers	9.0	9.9
Current account balance	**-36.9**	**-44.7**

1. Estimated as in Table 1.
2. CIA estimate.

5. Net private transfers (positive) were assumed to have grown at the same rate that they did for 1970-72.

Official Bilateral Capital Flows

15. DAC net official bilateral capital flows[6] were about $4.9 billion in 1974, roughly the same as for 1973. Data on OPEC official capital flows are not precise. We estimate 1974 OPEC bilateral commitments to non-OPEC LDCs at $8.6 billion, of which some $3 billion, inclusive of the $2 billion in grants referred to in paragraph 13, was actually transferred.[7] Net transfers from Communist nations were about $1.2 billion, inclusive of a negligible grant figure.

Multilateral Institutions

16. Non-OPEC LDCs acquired some $0.9 billion from the IMF Oil Facility in 1974 to assist in financing their balance-of-payments deficits (see Table 4). Gross drawings from the Fund other than from the Oil Facility approximated $1.1 billion. Partial data on IBRD/IDA disbursements indicate some increase in disbursements in 1974 over the record level of the previous year.

Private Capital

17. From the limited information on private capital flows, we estimate that the current account deficits of higher income LDCs such as Brazil, the Dominican Republic, and Jamaica were financed principally by private capital flows. For lower income LDCs such as Cameroon, India, Ivory Coast, Kenya, and Tanzania, current account financing came mainly from official sources (see Table 5).

18. Eurocurrency borrowing by non-OPEC LDCs for 1974 approximated $6.4 billion, with $4.5 billion of this going to higher income countries (see Figure 2). These borrowings were 33% above 1973 levels but were lower in the second half of the year than in the first.

Official Reserves

19. At the end of December 1974, the gross international reserves of non-OPEC LDCs were about $28 billion, off some $2 billion from the December

6. These are distinct from grants. They include official development lending and investment as well as official export credits.

7. Gross official bilateral disbursements (grants, loans, and asset acquisitions) in 1974 are estimated at $15 billion, of which DAC countries transferred $10 billion, OPEC $3 billion, and the Communist nations $1.7 billion. Net official capital flows are net of interest and loan amortization payments, which are about $1.5 billion annually to DAC countries and are presently negligible in the case of OPEC countries. The corresponding figure for Communist countries is now about $500 million.

Table 4

Non-OPEC LDCs: Borrowing from IMF Oil Facility[1]
1974

Thousand US $

UN Most Seriously Affected countries	654,187	Other countries	263,114
Bangladesh	48,468	Chile	49,764
Cameroon	5,544	Costa Rica	22,604
Central African Republic	3,186	Cyprus	7,656
Chad	2,646	Fiji	408
El Salvador	21,468	Nicaragua	3,972
Guinea	4,212	Panama	8,844
Haiti	4,590	South Korea	108,000
Honduras	20,142	Uganda	5,976
India	240,000	Uruguay	55,890
Ivory Coast	13,404		
Kenya	38,436		
Malagasy Republic	4,140		
Mali	4,800		
North Yemen	11,167		
Pakistan	117,528		
Sierra Leone	5,184		
Sri Lanka	40,800		
Sudan	34,452		
Tanzania	34,020		
	Total	**917,301**	

1. SDR units converted at 1 SDR = US $1.20.

Table 5

Net Official and Private Capital Flows to Selected Non-OPEC LDCs with Current Account Deficits

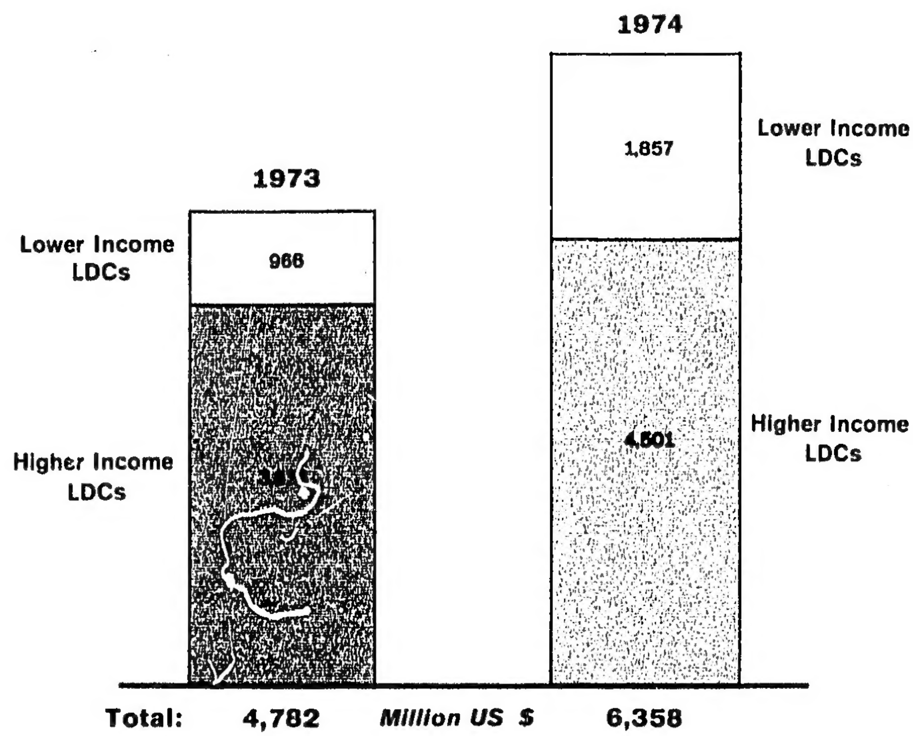
Million US $

	1973		1974[1]	
	Official Capital	Private Capital	Official Capital	Private Capital
Brazil	210.0	3,470.0	280.0	5,320.0
Cameroon	42.4	18.0	44.0	18.0
Dominican Republic	14.0	74.0	23.0	110.0
India	658.0	-210.0	1,141.0	-202.0
Ivory Coast	171.9	-49.6	199.0	-52.1
Jamaica	42.1	179.5	107.8	233.2
Kenya	53.0	45.0	85.0	45.0
Tanzania	137.0	9.8	120.7	17.4

1. Estimated.

Figure 2

Non-OPEC LDCs: Eurocurrency Borrowing



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1973 total for the group. Gross reserves of industrial countries rose by some $5 billion over the same period.

The MSAs

20. Estimates for a sample of 20 of the 33 MSAs indicate an overall deficit for the sample of $1 billion for 1974.[8] Drawings on the IMF (including those from the Oil Facility), less repayments, amounted to $1.1 billion. Of the net drawings, India received $688 million against an estimated overall deficit of $518 million, and Pakistan received $132 million against an overall deficit of

8. Balance-of-payments estimates by IMF and US embassies.

$225 million. Between them, these two countries obtained 53% of the net IMF drawings of non-OPEC LDCs in 1974.

21. Among the MSAs, Guyana, Ethiopia, and South Yemen incurred overall balance-of-payments surpluses in 1974. These developments should be regarded more as being the net outcome of random circumstances than as being positive signs of the economic health of those countries. All are relatively small consumers of imported petroleum. Guyana benefited from high sugar prices and a good sugar cane harvest; Yemen profited from Arab official donors and from workers' remittances from neighboring oil-producing countries. In the case of Ethiopia, uncertain political conditions led to inventory drawdowns of imported goods and restrained imports at the same time that favorable market conditions for coffee and pulses were boosting export earnings.

Overall Assessment and Short-Term Prospects

22. The balance-of-payments deficits of non-OPEC LDCs were financed with little apparent difficulty in 1974. For 1975, the prospects are for more serious balance-of-payments problems.

23. In industrial countries, little recovery from the economic recession is likely until late this year. Consequently, demand for the products of developing countries will continue weak. In the short term, prices of primary products may fall further as users' inventories continue to be drawn down. Even if a turnaround in the inventory position should stimulate LDC export volume after mid-1975, price declines up to that point would probably bring about minimal increases in export earnings for the year.

24. For 1975 as a whole, although certain prices of items, such as jute and tin, are expected to be higher than in 1974, commodity prices in general will be lower. The prices of manufactured goods will continue to increase. All this points to a continued worsening of the terms of trade of non-OPEC LDCs and to larger trade and current account deficits. We expect the 1975 trade deficit for the group to be about $35 billion and the current account deficit to be some $45 billion (see Table 3).

25. Faced with their poorer balance-of-payments prospects in 1975, non-OPEC LDCs probably will rely increasingly on import restrictions and currency devaluations to cope with the situation. Many countries will have to accept lower rates of economic growth. Brazil's real growth rate, for example, is expected to

fall from 10% to 5%-7%, Colombia's from 6% to 4%, Kenya's from 5% to 2%, and Costa Rica's from 4% to about 2%. On the other hand, Sri Lanka's real growth rate is expected to rise from 3% to 5-1/2% and Guyana's from 5% to 6% because of improved export prospects.

26. Non-OPEC LDCs face mixed balance-of-payments financing prospects for 1975. The level of interest rates in world capital markets, and the uncertainty prevailing there and in the developing countries themselves all serve to work against any increase in the rate of private capital flows to these countries. The burden of balance-of-payments financing in 1975 will fall increasingly on official bilateral and multilateral capital sources. In these arrangements, OPEC countries are expected to assume an expanding role

- in the financing of the 1975 IMF Oil Facility,
- in new lending to the IBRD,
- in direct (joint-venture) investment in non-OPEC LDCs,
- in increased activity in their regional official financial institutions, and
- in the transfer of 1974 aid commitments that were delayed in their disbursement.